

**To: Little Hoover Commission**

**From: The California Association for Local Economic Development**

**Re: Governor's Reorganization Plan #1 Hearing, March 19, 2002**

## **Overview**

Reorganizing the workforce development system will only be successful if the new system (Labor Agency) utilizes a demand-side approach to workforce development. The local economic development system is a link to business and jobs. If the goal for workforce development is to get people to work then working with local economic development must be a priority. The new agency needs to demonstrate how that will occur.

The California Association for Local Economic Development (CALED), representing over 1,500 public and private economic development professionals at the local, regional, and state levels, is vitally affected by and committed to the successful implementation of a State program designed to shift the focus of California's existing workforce system from short-term job training to economic development. CALED endorses the Governor's proposal to improve the workforce development system.

Over the last several years, economic development organizations have turned considerable attention to workforce development including the quality of K-12 education, school to career initiatives, skilled worker shortages and perhaps most of all, welfare reform. Nationally, workforce development has become a critical element of economic development and industry cluster-based strategies.

In a December 2001 survey of site location factors, corporate executives ranked the availability of skilled labor as the number-one factor. This was up from a ranking of number three in 2000. It was followed by and nearly tied with labor costs. The survey sites that "more than 90% of the survey respondents considered these factors 'Very Important' or 'Important'" (see attachments). This survey was conducted by AreaDevelopment- a leading magazine and information source for site and facility planning-, that focuses on corporate executives engaged in choosing locations for expansion of their operations.

The workforce development needs vary tremendously across the state. California's economy is composed of a number of regional economies with unique blends of industry clusters driving the economy and potential growth opportunities. These regional economies and growth opportunities should form the basis not only of our economic development strategies but also for the reformed workforce development system. This alignment with local industry needs and potential economic development opportunities is critical. The local economic development infrastructure currently in place is a unique resource to make the necessary connections.

## **Background**

Historically, the federal and state workforce development system represents the classic bureaucratic “silo” approach, with numerous specialized agencies, programs and eligible populations - disadvantaged adults, veterans, displaced workers, older workers, summer youth, unemployed, discouraged workers, workers impacted by foreign competition etc. as well as an entrenched network of nonprofit social service training providers. Add to this Federal and State Departments of Education, the community college system, the university system and state programs such as the California Employment Training Panel, and you have a system ruled by fragmentation and confusion. Furthermore, this employment and training system has been predominantly supply-side driven. That is, much more focused on the needs and perspective of the person seeking employment or training services instead of the demand side - or businesses. Contrast this with the economic development system, which is substantially more demand- side, that is, private sector business oriented.

Nevertheless, over the years, there has been success at the confluence of these systems. First source hiring agreements, customized industry training, training “brokers,” hiring tax credits and other strategies have added workforce to the plethora of economic development incentives and strategies to help attract, expand and retain businesses in a community. Prior to 1994, Private Industry Councils could fund economic development activities through the Employment Generating Activity Provision of the regulations. This was particularly important in rural areas where it was not accessible to employers or support services (child care/transportation) but the lack of employment opportunities which was the impediment to placement. When this provision was removed, connections between the employment and training and economic development systems were seriously weakened.

Enlightened workforce organizations have been able to attract key business and economic development participation, but the complexity, jargon, and bureaucracy of the program and the lack of ability to develop a truly comprehensive regional approach to workforce development with community colleges and others, have frustrated many well-intended business leaders. The lack of flexibility, and time and funding constraints in delivering customized programs to employers has also been a serious impediment of the current workforce system.

But it is not only the problems within the current system that call for change. Trends within “the new economy” call for a much different approach to workforce solutions. No longer can workers depend on lifelong employment opportunities. Training and skill building have not only become more of an individual responsibility but a lifelong responsibility as more and different career/employment options are chosen. Furthermore, traditional industries’ traits are breaking down - outsourcing, consultants, teaming on projects, strategic alliances and the like rely on shorter term types of engagements as well as rapid changes within the workplace. The classic example’s the motion picture industry with its coming together and dispersing of various technical expertise. Fast-moving, flexible, smaller companies (gazelles) without the requisite

human resource departments are also of more importance in this new economy, with serious implications for how workforce services can be delivered. A region's assets become not so much the companies, but the entrepreneurs and "knowledge" workers that can stimulate new job creation and growth within key industries.

Workforce programs speak little regarding the connection between the economic development and workforce training systems. While at the same time, welfare reform and the California Job Creation Investment Fund have laid the groundwork the economic development community has been pushing for years. These two programs have shown how to generate effective local collaborations connecting workforce with economic development opportunities.

## **Conclusion**

The Governor's proposal suggests progress, but the devil is in the details and in the implementation. It is not a tweaking of the current system which is required, but a full-blown reengineering and reinvention. The State can be a leader in this regard or simply a protector of the status quo. Strategic alignment and collaboration are, as always, critical to delivering an effective workforce system. The State should closely examine how economic development organizations involved in this process enhance regional collaboratives working in local areas. They should also take actions to ensure that economic development is well represented at both the state and regional level. Clearly, it is only those states (and regions) with the vision, leadership and guts, that will actually reform their workforce development system, more closely align it with their economic development strategy, and ensure that all players and funding are aligned with a specific strategic direction and intent.

The CALED recommendations for action are to:

- √ Fully integrate the workforce and economic development system at the state and regional levels and in both the policy and implementation arenas
- √ Align state and regional workforce plans as a critical part of local economic development strategies
- √ Promote strong local control and flexibility to ensure innovation and customized regional approaches between workforce development and economic development
- √ Engage business and industry as the primary customer
- √ Broaden accountability standards to measure the quality of services provided to employers and industries.
- √ Establish setaside planning funds and ongoing incentive funding which demonstrate/encourage alignment and integration between workforce and economic development at the state and local levels in planning and implementation activities, as well as regional collaboration across service delivery area boundaries.
- √ Encourage data driven decisions focussed on key industries of opportunity. Establish a one-stop data source to provide current workforce, employment and industry data organized by

regions and industry clusters to local economic development and workforce development collaborations.

- √ Define economic development organizations...ie A Local Economic Development organization is a public and/or nonprofit activity in a city, county or region of the State recognized by the community as the lead agency for the planning and implementation of economic development programs involving business expansion, business retention and new business development.
- √ Encourage cooperative marketing of economic development and workforce development services and resources to businesses. Requires cross-training between job developers and economic developers so that multiple services can be brokered to businesses effectively and efficiently.

### **About Local Economic Development and CALED**

Today in California there are over 250 (out of 458) cities with full-time economic development offices, 30 counties and 50 + regional economic development organizations. Except in a couple of rare instances every county in California is covered by some form of local economic development organization...all whom provide services to local business (their client). This has come a long way from the mere handful organizations serving this purpose in the 70's, 80's and early 90's. CALED is a nonprofit statewide professional economic development membership organization dedicated to serving these organizations and advancing its 850 members' ability to achieve excellence in delivering economic development services to their communities and their business clients.